



Newcastle University ePrints

Goddard J, Kempton L, Marlow D. [LEPs, Universities and Europe – Opportunities and challenges for supporting sub-national innovation in England](#). In: Ward, M ; Hardy, S, ed. *Where next for Local Enterprise Partnerships?*. London: Smith Institute, 2013.

Copyright:

© the authors 2013

Date deposited: 5 November 2014



This work is licensed under a [Creative Commons Attribution 3.0 Unported License](#)

ePrints – Newcastle University ePrints

<http://eprint.ncl.ac.uk>

Introduction

In its response to the Heseltine Review the Government has announced that *“Most of the money in the Structural and Investment Funds Growth Programme will be notionally allocated to Local Enterprise Partnership areas, with Local Enterprise Partnerships themselves working with local partners to set the direction of the Structural and Investment Fund Growth Programme in an Investment Strategy.”* These strategies will have to address the key EU funding priorities, a major one of which is innovation, through the lens of an EU-wide approach to ‘smart specialisation’. This approach ascribes a key role to universities as actors in local innovation eco-systems connecting global and the local knowledge domains and arguably gives far more prominence to universities than has been the case in previous structural funding programmes. (European Commission, 2011a)

Meanwhile in England, the landscape of sub-national economic development has changed radically since 2010. Regional Development Agencies (RDAs) and government offices in the regions have been abolished and local authorities (especially in the places that have traditionally been the biggest beneficiaries of structural funds) have had their budgets significantly cut. Universities are also grappling with the impacts of radical new policies which has seen student tuition fees almost treble, teaching grants (especially in the arts and humanities) slashed while a new focus on ‘non academic impact’ in assessing research quality is being introduced.

Even in the days of relative plenty, when the RDAs provided funding and capacity to help universities engage with local partners, significant challenges still remained. For the nascent, heterogeneous and often under resourced LEPs, anchoring universities into the local development landscape and harnessing their knowledge to support the ‘smart specialisation’ demanded by the European Commission (EC) in order to unlock much needed funding will be a challenging task. This paper argues that policy makers nationally and locally have yet to appreciate just how challenging this task will be, and success will be elusive unless steps are taken to ensure that there is sufficient capacity and motivation locally for effective partnerships to be built that can address these challenges. In

short, to what extent will a focus on 'smart specialisation' create opportunities for new ways of working to deliver local innovation and growth?

Smart Specialisation Strategies (S3)

S3 will be a key underpinning concept governing European Structural Fund investments in research and innovation in the 2014-2020 programming period. It is defined by the European Commission's S3 Platform (hosted by the Joint Research Centre IPTS in Seville) as "a strategic approach to economic development through targeted support to Research and Innovation". (European Commission, 2012)

Innovation Union, one of the three flagship initiatives for 'smart' growth underpinning Europe 2020 (the European Commission's 10 year strategy for 'smart, sustainable, inclusive growth' launched in 2010) sets out self assessment tools for national and regional¹ research and innovation systems. Taking a 'S3' approach to innovation is regarded by the Commission to be one of the ten conditions for well performing places. Furthermore it is a proposed *ex-ante* conditionality for the use of the European Regional Development Funds 2014-2020; this means it is an approach that is being increasingly adopted across Europe.

The move to the processes of S3 will not be simple. The method in its purist form proposes a new and more leading involvement of different actors in an 'entrepreneurial discovery process', described as a 'bottom up' learning process aimed at identifying areas for future specialism that build on a region's existing assets. . It demands a level of global awareness and partnerships beyond regional boundaries. It also introduces the concepts of embeddedness, connectedness and relatedness across functional economic areas. It calls for evidenced identification of competitive advantages around which inputs of regional stakeholders and resources can be concentrated. On top of this, it asks for measures to strengthen regional innovation systems in order to maximise knowledge flows and spread the benefits of innovation throughout the entire regional economy.

¹ Throughout this chapter the terms 'local', 'regional' and 'sub- national' are used interchangeably; this is unavoidable, given the different economic geographies for policy making employed by the European Commission and UK governments past and present, as well as the self defined local areas of operation of LEPs, Universities and other actors.

The Central Role of Universities in S3

The main focus on promoting the active engagement of universities in regions has traditionally been in terms of their contribution to the knowledge base in the Regional Innovation Systems (RIS). This has gained a new salience in the context of the advancement of the notion of S3 as a future focus for European regional policy. According to McCann and Ortega-Argilés *S3 'envisages that the identification of the knowledge intensive areas for potential growth and development are related to the role of certain classes of players (researchers, suppliers, manufacturers and service providers, entrepreneurs, users) and the public research and industry /science links. The players are regarded as being the agents who use the knowledge acquisition facilities and resources (human capital, ideas, academic and research collaborations) to scan the available local economic and market opportunities, to identify technological and market niches for exploitation, and thereby act as the catalyst for driving the emerging transformation of the economy'.*(McCann and Ortega-Argiles, 2011). Universities can therefore be expected to play a key role in defining a regional S3 strategy by contributing to a rigorous assessment of the region's knowledge assets, capabilities and competencies, including those embedded in the university's own departments as well as local businesses.

Universities can contribute to the regional entrepreneurial discovery process by bringing global awareness and partnerships across regional borders into the frame through evidenced based identification of competitive advantage around which regional strategies and resources can be concentrated. This does not mean a university's research strengths should match the economic profile of the region – indeed the diversity of a university's research base in conjunction with the opportunity arising from public funding to explore risky forms of research should be seen as the distinctive value of universities in regional innovation systems, as this can rarely be emulated in the private sector. This type of 'slack' can add to the long term adaptability of a regional economy that prevents 'lock in' to ageing technologies and a failure to support ongoing innovation. Universities through involvement in the development of platform technologies can also facilitate cross sector diversification. (Goddard, Kempton and Vallance, 2013)

Furthermore, in meeting major societal challenges that have both global and local dimensions, such as how to move towards a low carbon economy or to meet the needs and realise the opportunities of an ageing population, universities can contribute to local knowledge creation and its translation

into innovative products and public and private services. In addressing such challenges universities can engage the creative arts and social sciences as well as scientists and technologists. This role in S3 has been highlighted in the agenda adopted by the Commission in September 2011 for the modernisation of Europe's higher education systems. (European Commission 2011b)

Delivering 'S3' on the ground in England

It is estimated that the total value of innovation actions funded under the European Regional Development Fund (ERDF) component of the structural funds in England for the 2006-2013 period was in the region of €850m. It is not yet known how much LEPs and their partners will choose to allocate to 'innovation type' actions post 2013; however it is clear that the EC sees innovation remaining a priority for the UK (as recently expressed in an open letter). England will have access to an ERDF 'pot' worth around €3bn between 2014 and 2020, with the stipulation that in transition and developed 'regions' (i.e. most of England) 60% of the fund in the former category and 80% in the latter will have to be spent on 3 or 4 priority areas, including actions focused on Innovation and R&D.

This is a challenge. In the previous programming period RDAs created regional Science and Industry Councils with research and business representatives to help them prioritise regional investments in science and technology and downstream innovation; these Councils mediated between the regions and national initiatives supported by the Technology Strategy Board (TSB) and the Research Councils. Through their block grant funding the RDAs were able to match European regional funds to support such interventions as the establishment of technology and innovation centres of both regional and national significance (see for example Goddard, Robertson and Vallance, 2012). As well as physical investments in innovation hubs, through their business support measures and influence over the skills agenda RDAs were able to stimulate regional innovation in the round. In short RDAs were able to use a variety of funding mechanisms to embed business, universities and local authorities into regional innovation systems.

This regime was not without its shortcomings when viewed from the perspective of S3. First, there were far too many copycat strategies that were not based on an analysis of regional assets. Second, because there was little inter-regional collaboration, interventions often failed to build critical mass of capacity in both the knowledge demand and supply sides. Third, In terms of the structural funds there were ten separate ERDF Operational Programmes in England. Finally, from a national

perspective knowledge supply was being enhanced in regions where there was limited current absorptive capacity in business and no overarching strategy to develop the demand side in innovation thin regions; more specifically key innovation players representing universities, research councils and other national organisations were not formally engaged in the shaping of a national innovation system with a territorial dimension.

Government has now developed and consulted widely on national priorities for the next programming period of which the major priorities are innovation R&D, low carbon, SMEs, ICT, skills and social inclusion. Recently (in their response to the Heseltine Review) they set out a high level approach to programme management for the 2014-20 EU Structural & Investment Fund. This suggests that Local Enterprise Partnerships (LEPs) will lead the formulation of investment strategies for the structural funds against notional allocations. Cumulatively, these 39 strategies become the building blocks of the national programme.

Bringing this approach to fruition across England will be hugely problematic. As discussed in other chapters, the 39 LEPs are infant institutions covering varying geographies, of differing characters, capacities and capabilities. Their boundaries do not match the NUTS2 areas that will be utilised by the Commission. They have little (if any) direct expertise in EU programme formulation and implementation and limited access at the moment to any major sources of national or local match funding on which to anchor an EU investment strategy. For innovation this challenge is even more acute given Government's response to the Heseltine Review. This suggests that innovation funding (and commissioning) will remain principally national, and will not be a component of the new single local growth fund it intends to establish from April 2015 (which will presumably be a principal source of LEP match for EU Structural Fund programmes).

Research that we have undertaken suggests that central government agencies largely consider the 2011 National Innovation and Research Strategy for Growth overseen by the Science Minister is already 'smart' and therefore compliant with the *ex-ante* conditionality (UK, 2011). The Strategy focuses on research and technology development and the commercialisation of the knowledge base in universities with no explicit sub-national dimension. A large number of agencies are involved in the implementation of the strategy including the Technology Strategy Board (TSB), Higher Education Funding Council for England (HEFCE) and the UK Research Councils, but there are currently no formal mechanisms through which these bodies can come together. Amongst officials there is concern as to how well the innovation strand in the structural funds can be aligned with national programmes, particularly those that are competitive in design. National agencies will therefore need to invest

considerable resources in lateral and vertical coordination if they are to work together and engage effectively with the variable capacities and capabilities of the 39 LEPs and their local partners.

The research has revealed something of a need/desire paradox on the part both national and local actors. There is consensus about the lack of capacity but little appetite for new structures – especially any which would have a governance and/or gate-keeping role on either national or local prioritisation of the use of structural funds, a process which is supposed to be at the heart of the S3 approach. While a majority of respondents to a survey we have undertaken believe LEPS should be playing a prominent role in local leadership for innovation, few felt this was currently the case. At the same time, LEPs saw their role as much more behind the scenes, facilitating leadership rather than directly delivering it. So as well as the considerable structural challenges local areas will face in drawing down EU funding post 2013, there is also a possible mismatch in expectations among local and central actors over each other's roles and responsibilities in the process.

Universities as actors in local economic development and innovation

Universities as globally engaged institutions can potentially bridge the gap between national and local approaches to economic development. At the most basic level, universities can be anchor institutions in local economies as major employers across a wide range of occupations, purchasers of local goods and services, and contributors to cultural life and the built environment of towns and cities. Local investment in the infrastructure of a university to support its core business of research and teaching can therefore have a significant *passive* regional multiplier effect even if the university is not *actively* supporting regional development. (Goddard and Vallance, 2013)

But what of the more active contributions that universities can make? This can be broken down into four areas – business innovation which is closely linked, although not exclusively, to the research function of the university, human capital development linked to the teaching function and community development linked to the public service role. The fourth area is the contribution of the university to the institutional capacity of the local area through engagement of its management, staff and students in local civil society. Where these four domains are integrated, the university can be seen to be occupying a “proactive” and not just “passive” role in the regional development process. (OECD 2007)

Universities in the round therefore have a potentially pivotal role to play in the social and economic development of their localities. They are a critical 'asset' of the area; even more so in localities where the private sector may be weak or relatively small, with low levels of research and development activity. In such situations mobilisation of the resources of the university can have a disproportionately positive effect on their local economies and achievement of comprehensive strategies for growth.

There are a range of mechanisms available to support the engagement of universities in local economic development, many of which are being employed within England and elsewhere in Europe. However as the EU Guide Connecting Universities to Regional Growth points out it is the strategic co-ordination of these mechanisms within a wider policy framework that will yield the maximum impact. To achieve this, universities and their local partners, with the support of national funders, need to address the many barriers that can get in the way of strategic collaboration.

The nature of the challenges

On the knowledge supply side, one of the potentially greatest challenges is that higher education policy in the UK as in many other countries does not have an explicit territorial dimension. Academics and their universities are rewarded on the basis of the scientific excellence of their research and where they collaborate with business there are strong incentives for this to be with leading companies in the field regardless of their location. While university technology transfer offices are dedicated to the commercialisation of research, including spin outs, they are generally not resourced to explicitly contribute to local economic development, where the outcomes such as job generation may be outside the remit of higher education. The consequence is that the national and international rankings of universities are by and large correlated with the hierarchy of locations (in other words, the 'best' universities tend to be found in the most dynamic cities and regions).

On the local demand side while an area might possess a strong university or universities there may be limited absorptive capacity in local enterprises, especially SMEs and the branches of multinational companies with no local in-house R&D. On the institutional side local governments may be fragmented and unable to act beyond their immediate boundaries. The local entrepreneurial environment, including venture capital funding, may be inimical to university spin outs. In such circumstances the bundling together of demand for university services will be challenging.

Another challenge is nature of the funding regulations. Universities are familiar with and organised to meet the requirements of national and international competitions for research grants. In comparison European Structural Funds can be seen as a high risk proposition due to an emphasis on outputs and results (e.g. job creation) that are not linked to the core mission of universities; moreover intervention rates are considerably lower than 'traditional' sources of research funding such as the Framework programmes and the forthcoming Horizon 2020. Funding for research through these programmes can be more attractive as it (currently) has an intervention rate of up to 75%, with some activities even eligible for 100% funding. In addition the application process is more in tune with academic practices such as peer review. .

Conclusions

European funding in the 2014-2020 period provides a huge opportunity in a time of austerity and limited resources to double the impact of local and national investments aimed at driving economic development and growth, particularly in those places where the economic conditions are the most challenging. However there is a gap at the sub national level left by the departure of the RDAs. LEPs are currently of widely differing size, scale, coherence (both geographically and in terms of partnership maturity), ambitions and capability. Some LEPs have the capacity to drive forward their proposals for local innovation strategies and plans while others have not yet reached that stage of development.

Universities are clearly being assigned a more prominent role in the delivery of European funded programmes, particularly in the context of the S3 agenda. In an era of radical institutional changes at the sub national level in England, universities' role as 'anchor' institutions in their local economies is increasingly important. This has been recognised by the Government in the recent announcement of an independent review of university partnerships with localities to be chaired by Sir Andrew Witty, CEO of GlaxoSmithKline and Chancellor of Nottingham University. The review will need to recognise that both universities and local authorities are operating in a more turbulent environment than when partnerships were forged . Universities are working through the implications of a fundamental reform of their funding regime. The increased significance of graduate employability and the greater weight given to research impact in future funding may stimulate more local engagement with local employers. On the other hand the growing marketisation of HE may to lead some institutions to

withdraw from public good activities that do not directly contribute to the 'bottom line'. For their parts LEPs and local authorities may look to contract out a range of economic development functions to universities in their area. The Technical Assistance budget line in the structural funds might make this possible.

In summary, the challenge for policy makers both locally and nationally is how to address the often competing pressures of achieving national and international standards of excellence in innovation with closing a widening gap in prosperity between different places. Furthermore, the heterogeneity of structures for local economic development means a more tailored and nuanced approach will need to be invested in by national agencies seeking to engage locally. Finally, as one of the few consistent local actors, and comparatively unscathed financially compared to public sector bodies, universities could be expected to make a much more significant contribution to leadership and delivery of local innovation. In these challenging times it is increasingly incumbent on universities to show not just what they are good 'at', but also what they are good 'for'.

References

European Commission (2011a) Supporting growth and jobs – an agenda for modernisation of Europe's higher education system (COM (2011) (567), CEC, Brussels

European Commission (2011b) Connecting Universities to Regional Growth, CEC, Brussels

European Commission (2012) Guide to Research and Innovation Strategies for Smart Specialisation (RIS3), CEC, Brussels

Goddard, J. and Vallance, P. (2013) The University and the City, (Routledge, London).

Goddard, J., Robertson, D. and Vallance, P. (2012) 'Universities, Technology and Innovation Centres, and Regional Development: the case of the North East of England', Cambridge Journal of Economics 36, (3), p.609-627.

Goddard, J., Kempton, L. and Vallance, P. (*in press*) 'Universities and Smart Specialisation: challenges, tensions, and opportunities for the innovation strategies of European regions', Ekonomiaz

McCann, P. and Ortega-Argilés, R. (2011): "Smart specialisation, regional growth and applications to EU cohesion policy", *Economic Geography Working Paper 2011: Faculty of Spatial Sciences, University of Groningen*.

OECD (2007) Higher Education and Regions: Globally Competitive, Locally Engaged, OECD, Paris

UK (2011) National Innovation and Research Strategy for Growth Cm 8238, HMSO, London